

IAR INLAND EMPIRE REPORT ON BUSINESS

Report for September 2006
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Prepared by:



Supporter: **CSUSB College of Business and Public Administration**

Local manufacturing sector has shifted direction after two months of decline

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research) and Nick Patel (Assistant Project Coordinator), “This month’s PMI (50.1) registered a substantial gain from last month’s PMI (43.3). On the other hand, several of the major indices remain of concern, especially production (which is unchanged from a last month which was a weak month) and new orders which continues to register below the 50% mark. Nevertheless, this month’s PMI suggests that local manufacturing sector and the local economy are growing, but at a substantially slower rate than earlier this year. Furthermore, there are two other indications of strength. First, the nation’s economy is and continues to be in growth mode. Secondly, the commodity prices are increasing at a slower pace; as a result, the inflationary pressures within the Inland Empire are easing somewhat for the second month in a row.”

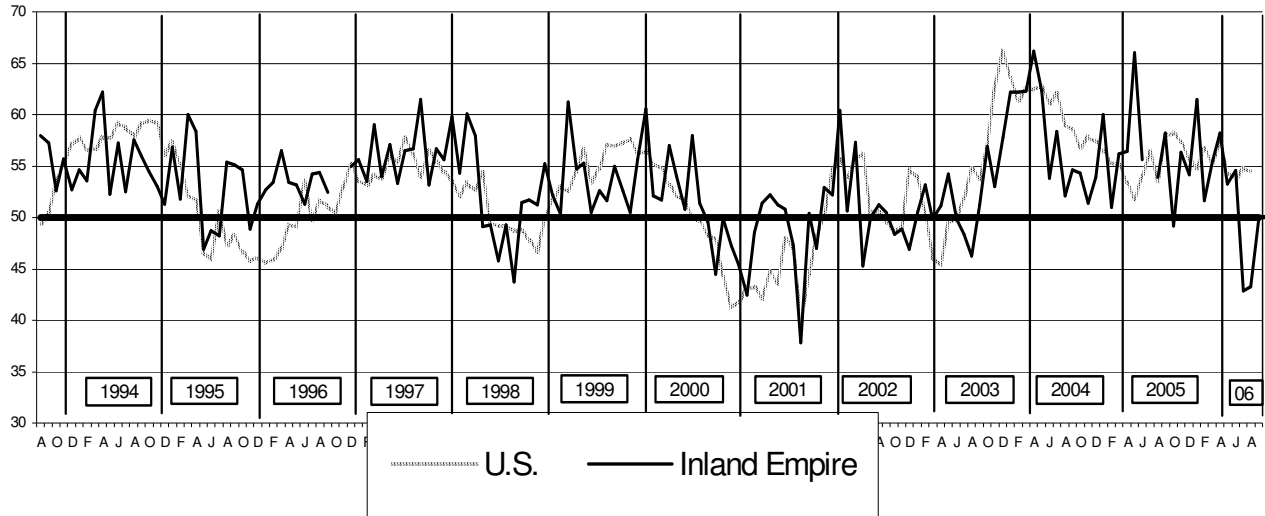
Following are some highlights from this month’s report:

September 2006 Business Survey at a Glance				
	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	43.3	50.1	Growing	Slower
Commodity Prices	64.8	58.7	Increasing	Slower
Production	42.6	50.0	Unchanged	Slower
New Orders	38.5	43.5	Contracting	Slower
Inventory	37.0	47.8	Contracting	Faster
Employment	40.7	50.0	Unchanged	From unchanged
Supplier Deliveries	61.5	65.2	Slowing	Faster

* NOTE: In all cases except Supplier Deliveries, the “Direction” refers to whether the index is above 50% (growing) or below 50% (decreasing).

** September's PMI (50.1) has decreased from last month's figure (43.3), and suggests that the last two months of data below the 50% mark did not reflect a change of direction within the manufacturing sector.

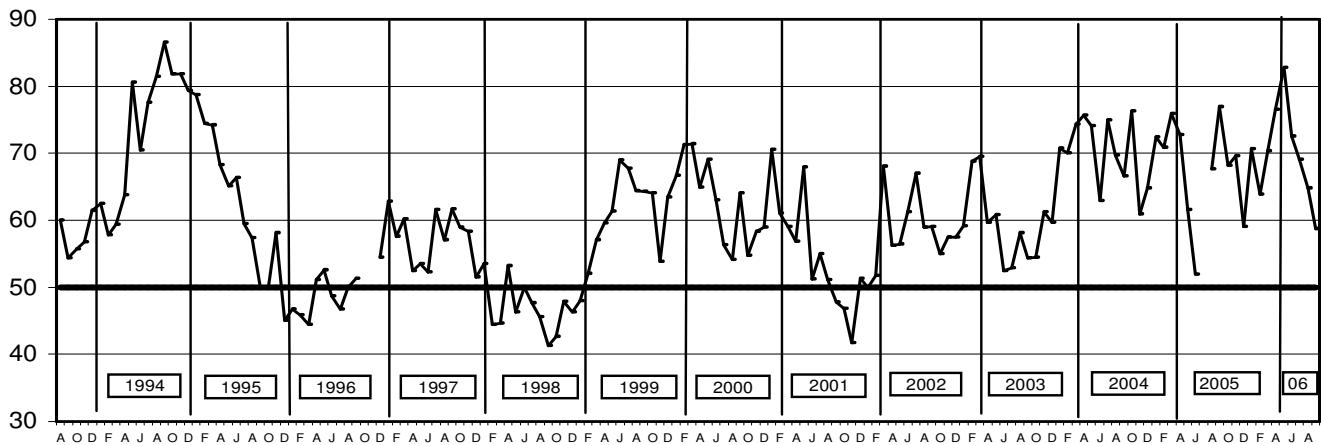
Purchasing Managers' Index



** NOTE: Inland Empire data were not collected for the months of October and November 1996, and July 2005.

September's Commodity Price Index of 58.7 decreased from last month's figure of 64.8, showing that inflationary pressures although still present in the Riverside and San Bernardino County areas, have somewhat subsided.

Commodity Prices



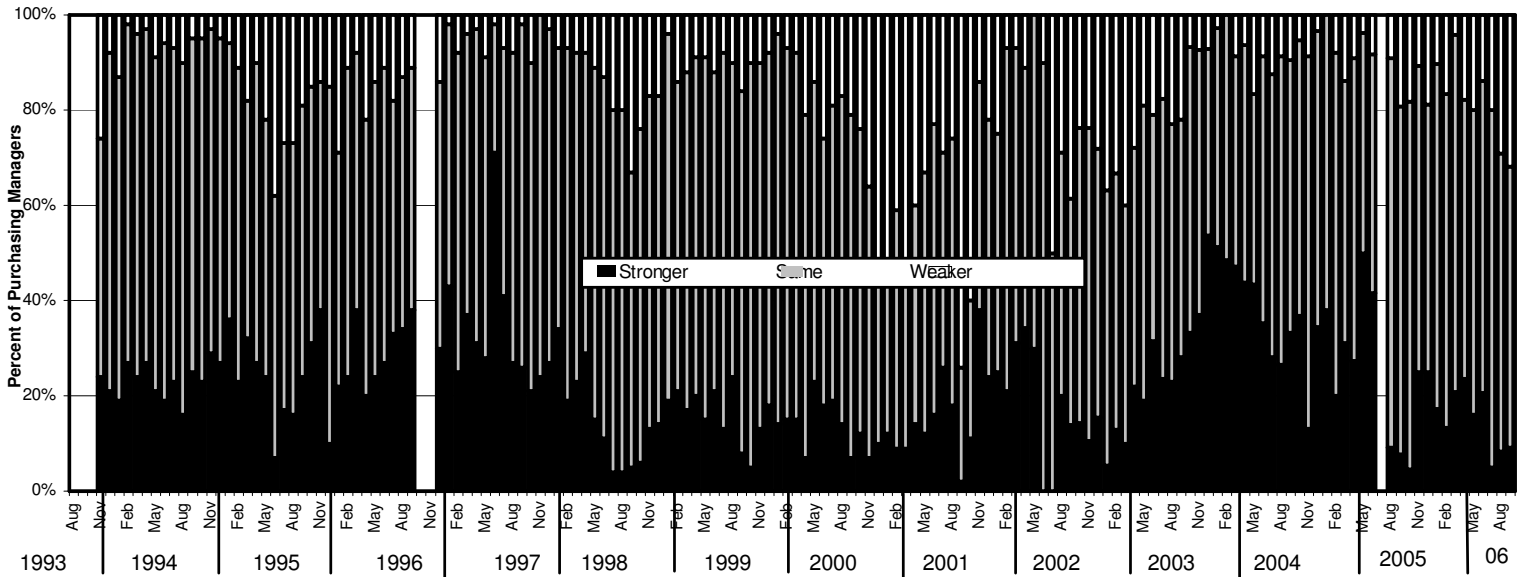
** In September the Employment Index decreased from 40.7 to 50.0, Production decreased from 42.6 to 50.0, Inventories also decreased 37.0 to 47.8, Supplier Deliveries increased from 61.5 to 65.2, and New Orders decreased from 38.5 to 43.5.

Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only nine percent of purchasing manager predict that the local economy will become stronger in the upcoming months. Fifty-nine percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining thirty-two percent believe the local economy will become weaker by next quarter. These figures are almost identical to those from last month

STATE OF THE ECONOMY: DATA FROM 9/2005 THROUGH 9/2006

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Weaker	19	18	11	19	10	17	4	19	20	14	20	29	32
Same	73	77	64	56	73	70	75	56	64	65	75	63	60
Stronger	8	5	25	25	17	13	21	25	16	21	5	8	9

State of the Local Economy



*** NOTE: Inland Empire data were not collected for the months of October and November, 1996 and July 2005.

When Purchasing managers were asked to make comments on the general business conditions that affected their company, they only remarked negatively: " " Housing off 25% in the high desert, new starts, " " softer, " " High commodity metal prices continue to negatively effect profit margins."

In conclusion, IAR views this report as portraying a mixed picture of the local economy. Clearly the manufacturing sector and the general economy are still growing, nationally the economy is still vigorous and the commodity price index is somewhat down. However there are signs of weakness such as a production index of 50 (indicating that it is unchanged from a “weak” month) and new orders which remain below 50.

The Inland Empire has shown remarkable growth over the past several years, particularly in relation to the rest of the state. Perhaps it is too much to expect that this rate of growth will continue without a few “bumps” in the road.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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